

Message Text

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DRAFTED BY TREASURY:MRYSS:DA

APPROVED BY EB/IFD/ODF:AFWATSON

EXIM:JDUFF

STATE/EB/IFD/ODF:TPARKER

ARA:RARELLANO

ARA/ECA:SMYLES

-----012815 211650Z /72

O R 211640Z JUN 78

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA IMMEDIATE

INFO AMEMBASSY BOGOTA

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E.O. 11652: N/A

TAGS: ETRD, BR, CO

SUBJECT: EXPORT CREDITS

1. WE HAVE BEEN ADVISED THAT THE BANK OF BRAZIL IS SUPPORTING AN EXPORT CREDIT INVOLVING THE SALE OF VARIOUS TYPES OF CONSTRUCTION EQUIPMENT TO COLOMBIA AT SIX PERCENT INTEREST WITH TEN YEAR REPAYMENT TERMS. OSTENSIBLY, THESE TERMS WERE OFFERED TO THE COLOMBIAN MINISTRY OF PUBLIC WORKS AND TRANSPORTATION BECAUSE THESE FINANCING TERMS ARE THE MINIMUM ACCEPTABLE TO THE GOC.

2. WE CONSIDER THE INTEREST RATE OFFERED BY BRAZIL TO BE OF A PREDATORY CHARACTER. IT IS SUBSTANTIALLY BELOW THE COST OF MONEY TO THE BRAZILIAN GOVERNMENT AND WELL BELOW

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THE MINIMUM INTEREST RATE ESTABLISHED BY THE ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS NEGOTIATED WITHIN THE FRAMEWORK OF THE OECD. THIS TYPE OF EXPORT CREDIT SUPPORT CONSTITUTES A MATTER OF SERIOUS CONCERN SINCE IT LEADS TO MATCHING PROPOSALS BY OTHERS AND INVOLVES WASTEFUL, COSTLY AND COUNTERPRODUCTIVE COMPETITION.

3. EMBASSY IS REQUESTED DISCUSS THIS PROPOSED EXPORT CREDIT WITH MR. BRACHER OF THE BANK OF BRAZIL WITH A VIEW TOWARD

GETTING THE BANK OF BRAZIL TO INCREASE THE INTEREST RATE TO THE 7.5 PERCENT MINIMUM PROVIDED BY THE ARRANGEMENT.

4. IN THIS DISCUSSION EMBASSY SHOULD CLARIFY TO BRACHER THAT THE ARRANGEMENT ALLOWS PARTICIPANTS TO MATCH NON-CONFORMING TERMS OFFERED BY A NON-PARTICIPANT (SEE PARA 6 BELOW). EMBASSY SHOULD EMPHASIZE THAT THE U.S. EXPORT-IMPORT BANK WILL PROVIDE SUPPORT FOR U.S. EXPORTER WHICH WILL GIVE AN EFFECTIVE INTEREST RATE OF SIX PERCENT IF THE BANK OF BRAZIL DOES NOT RAISE ITS INTEREST RATE TO 7.5 PERCENT. THUS, IT IS CLEAR THAT BRAZIL WILL GAIN NOTHING FROM OFFERING THE SIX PERCENT RATE. EXIMBANK'S PROPOSED MATCHING IS IN KEEPING WITH ITS POLICY TO OFFER SUPPORT TO U.S. EXPORTERS ON TERMS AND CONDITIONS COMPETITIVE WITH GOVERNMENT-SUPPORTED TERMS AND CONDITIONS OFFERED BY COMPETITORS. FURTHER, WE DO NOT CONSIDER THE DESIRE OF THE COLOMBIAN GOVERNMENT FOR A SIX PERCENT RATE AS JUSTIFICATION FOR SUCH AN OFFER BY THE BANK OF BRAZIL OR ANY OTHER OFFICIAL EXPORT CREDIT AGENCY. WE STRONGLY BELIEVE EXPORT CREDITS SHOULD BE USED TO FACILITATE COMMERCIAL EXPORTS, NOT CONSTITUTE A FORM OF CONCESSIONAL LIMITED OFFICIAL USE

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ASSISTANCE.

5. EMBASSY IS REQUESTED REPORT THE RESULTS OF THIS DEMARCHE AS SOON AS POSSIBLE BUT NOT LATER THAN TUESDAY, JUNE 27, 1978.

6. FYI: ALTHOUGH BRAZIL DOES NOT PARTICIPATE IN ARRANGEMENTS ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS, WHICH WAS NEGOTIATED WITHIN OECD FRAMEWORK IN FEBRUARY 1978, WE FEEL ADVANCED DEVELOPING COUNTRIES SUCH AS BRAZIL SHOULD FOLLOW ITS GUIDELINES. ALTHOUGH THE ARRANGEMENT ALLOWS PARTICIPANTS TO MATCH THE TERMS OFFERED BY A NON-PARTICIPANT, WE WOULD PREFER TO AVOID A MATCHING SITUATION FOR THE REASONS STATED IN PARA 2 ABOVE. WE WOULD HOPE IN NOT TOO DISTANT FUTURE TO RAISE POSSIBILITY OF BRAZIL'S BECOMING PARTICIPANT IN ARRANGEMENT. END FYI.
VANCE

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